


<b>TRANSMITTAL SLIP</b>		DATE 10 Jan 1983
TO: Maurice Ernst		
ROOM NO. 7E48	BUILDING Hq	
REMARKS:		
FROM: <span style="border: 1px solid black; display: inline-block; width: 100px; height: 1.2em; vertical-align: middle;"></span> C/SRD/OGI		
ROOM NO. 3G31	BUILDING Hq	EXTENSION <span style="border: 1px solid black; display: inline-block; width: 50px; height: 1.2em; vertical-align: middle;"></span>


FORM NO. 241 1 FEB 55 REPLACES FORM 36-8 (47)

STAT

STAT


  
10 January 1983

MEMORANDUM FOR THE RECORD

FROM :   
Chief, Strategic Resources Division, OGI

STAT

SUBJECT: Meeting of the International Energy Security Group,  
10 January, at State Department

1. CIA was represented by Maurice Ernst  First item on the agenda was a paper prepared by Bill Martin of the NSC Staff on Alaskan oil exports. After consideration by the group, it was determined by the group that the paper was not ready for the SIG IEP. As a result, Under Secretary Wallis will give an oral presentation to the SIG IEP on this subject, with a paper to follow in a few weeks.

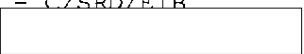
STAT

2. The second item on the agenda was a progress report on the energy requirements study. Allan Wendt, State Department, presented a terms of reference for the study and a schedule for IEA production of the study, hopefully to be presented to the May ministerial. Copies of both the Alaskan oil export paper and the progress report on energy requirements are attached.

STAT

Distribution:

Orig - Chrono  
1 - NIO/Economics  
1 - C/SRD/EIB

OGI/SR 

STAT

~~SECRET~~

100-  
X6727

NATIONAL SECURITY COUNCIL  
WASHINGTON, D.C. 20506

VIA LEX

(copied to  
NIO/E, NIO)

CONFIDENTIAL  
ATTACHMENT

January 7, 1983

MEMORANDUM FOR: ALLEN WALLIS  
KEN DAVIS  
LIONEL OLMER  
BILL MORRIS  
FRED IKLE  
HENRY ROWEN  
FRED KHEZDOURI  
DANNY BOGGS  
MARC LELAND  
ROBIN WEST

FROM: NORMAN A. BAILEY *NAB*

Attached is the updated options paper on the Alaskan oil  
export issue for the January 10 meeting of the International  
Energy Security Group.

Attachment

CONFIDENTIAL  
ATTACHMENT

## Report of the Working Group on Alaskan Oil Export

### Summary

The Export Administration Act and the Trans-Alaskan Pipeline Act essentially forbid the export of crude oil from the United States. These laws were generally enacted in response to the belief that in time of oil shortages all available domestic oil should stay in this country.

The Working Group has concluded, however, that the present improved energy situation, coupled with new international political and economic realities, strongly suggests that the Administration should consider partially lifting the export ban.

In return, the Japanese would be encouraged to invest in U.S. (primarily Alaskan) oil and other energy resources and be allowed to export what they develop. The U.S. should also seek other economic and security concessions in addition to those expected from present U.S.-Japanese negotiations.

### Key Issues

1. Japanese Energy Security. Japan has been interested in Alaskan oil since the first oil shock in the early seventies for reasons of energy security and diversification. Even with today's world oil market surplus, the Government of Japan is still extremely interested in seeking Alaskan energy exports, particularly oil. U.S. energy can help reduce Japanese dependence on Middle East and Soviet energy, thereby reducing the attractiveness of Sakhalin-type projects. The U.S. has a potential to meet up to ten percent of total Japanese energy needs in the 1990s.

2. U.S.-Japanese Relations. Prime Minister Nakasone could improve his situation at home by receiving credit for U.S. removal of oil export constraints -- something his predecessors were unable to do. This would give him added credibility with strong domestic interests which do not want to make further trade and security concessions to the United States. Likewise, it would be important for this Administration to show forward movement in problem areas of U.S.-Japanese relations. We would expect substantial investment in U.S. energy development and some further trade and security concessions beyond those presently indicated.

Oil could contribute to unlocking the present impasse in U.S.-Japanese relations. However, ~~our~~ offering will have to be carefully timed and orchestrated to have the maximum effect.

CONFIDENTIAL

DECLASSIFY ON: OADR

CLASSIFIED BY WILLIAM F. MARTIN

CONFIDENTIAL

2

3. Free Trade. The free market orientation of the Administration is particularly well served by the economics of the situation which favor the removal of restrictions on the export of Alaskan crude. Such action would signal to the world community the seriousness the U.S. attaches to free trade at a time when protectionist tendencies are threatening the world trading system. The U.S. bilateral trade balance with Japan would be improved. Overall U.S. trade balances would also be marginally better due to efficiency gains.

4. U.S. Energy. Recent large offshore oil discoveries in California suggest that one of the principal markets for Alaskan oil -- the U.S. West Coast -- may continue to be saturated once these new discoveries are brought on stream. Allowing immediate shipment of some oil to Japan could help resolve the West Coast glut. Allowing exports (and thus higher wellhead prices) would also increase the profitability of Alaskan and Californian crude production which, in turn, would stimulate additional investment in exploration, development and production from new and existing fields in these regions. It would also improve efficiency of world oil distribution channels. Over the longer term, Japanese investment can contribute to greater opening of Alaskan energy potential which might otherwise go undeveloped. On balance, U.S. energy interests would be very well served.

5. U.S. Economic Benefits and Costs. The U.S. economy would benefit from greater energy investment, improved bilateral trade balances, modest gains in windfall tax receipts and a general improvement in overall market efficiency. With removal of the ban, the U.S. would also have more flexibility in helping out financially troubled oil exporting countries such as Mexico and Nigeria.

The major economic problem is the maritime industry, which has effectively fought against export authorization in the past. The President has stated that this Administration would not jeopardize the Jones Act or the jobs dependent on it. The ban currently keeps in operation 55 tankers that employ about 2,800 seamen. While removal of the ban would eventually promote a reallocation of these resources to more productive uses, some short-term dislocations in the domestic maritime industry are inevitable. It is estimated that allowing only 200,000 barrels a day of oil to be exported (compared to up to 500,000 with complete deregulation) would result in loss of less than one thousand jobs. Negotiating cargo preference for Alaskan oil exports would reduce this job loss substantially. Commerce and State oppose cargo preference unless essential for passage in Congress.

6. Western Energy Security. Permitting export of oil to Japan would signal U.S. commitment to Western energy security and promote the U.S. as a reliable energy partner. In addition, it would enhance our credibility in Western energy security discussions in the IEA and follow-up energy studies to the East-West economic accord.

CONFIDENTIAL

CONFIDENTIAL

3

7. Defense Tanker Requirements. The Defense Department has indicated that at least 26 of the 55 tankers now in Alaska-Gulf oil trade are necessary for the Defense Reserve Fleet. Thus, it would appear that there would be sufficient tanker bottoms for Defense purposes even with a reduction in the Alaska to Gulf of Mexico trade. Releasing 200,000 barrels per day would result in the idling of about ~~20~~ tankers.

8. Impact on Oil Availability in a Disruption. A partial lifting of the ban on Alaskan oil exports would have no effect on U.S. oil supply availability in a situation where the IEA oil allocation system had been activated and was in full effect. Allocation shares under this system are calculated on the basis of consumption in the period preceding activation of the system. If the U.S. were to export some of its domestically produced oil, it would be entitled to import that much more oil from other sources.

In an oil supply disruption in which the IEA system was not activated, continued export of some U.S. produced oil could be politically controversial. In reality, however, removal of the ban would not increase the level of U.S. net crude oil imports and, to the extent that U.S. domestic production is stimulated, U.S. net oil imports could actually fall, thereby increasing overall U.S. energy security.

Given the political realities of the situation, however, it may be necessary to reserve the rights to retain the first 200,000 barrels per day in an emergency. Oil developed through Japanese investment could still be allowed to be shipped. Such differentiation, however, is likely to reduce the attractiveness of the deal to the Japanese.

9. Implementation Issues. Because of the potential for higher revenues, the Alaskan producers will likely want to export more than 200,000 barrels per day of crude oil to Japan. As a result, a partial lifting of the ban places Japan in a position to capture much of the efficiency gains by getting the producers to bid against each other. To keep the efficiency gains in the U.S. economy, the producers should be permitted to market their crude to any foreign market.

Partial removal of the ban on exports would require the development of some system to determine which producers will be permitted to export Alaskan crude oil to foreign markets. The most efficient approach would be to auction these rights to the highest bidders.

10. Legal Implications. Section 7 (d) of the Export Administration Act, 50 U.S.C. App. 2406 (d) prohibits export of TAPS oil; Section 28 (u) of the Mineral Lands Leasing Act 30 U.S.C. 185 (u) prohibits export of crude oil transported

CONFIDENTIAL

CONFIDENTIAL

9

through pipelines over rights-of-way granted under the Act (this covers most U.S. crude); Section 103 (b) of the Energy Policy and Conservation Act / ~~10 U.S.C. 212 (b)~~ prohibits the export of any crude unless the President finds such export to be in the national interest and consistent with the purposes of that Act. The Department of Commerce regulations (10 C.F.R. Part 377) promulgated under the Export Administration Act prohibit all crude oil exports; additional prohibitions apply to crude oil produced from the Outer Continental Shelf and the Naval Petroleum Reserves.

The Commerce prohibitions can be changed administratively if the DOC makes a determination that crude oil is no longer in short supply. Generally, the other prohibitions can be overridden by Presidential findings that exports would be in the national interest, consistent with purposes of the Export Administration Act, and would not diminish available supply in the U.S.

While Congress would have to approve any removal or alteration of the specific prohibition on the export of TAPS oil in the Export Administration Act, the President can remove the other prohibitions on U.S. crude oil exports contained in the Export Administration Act without Congressional approval or review. Removal of the prohibitions on U.S. crude oil exports contained in EPCA and the Mineral Lands Leasing Act would not require Congressional approval, but would be subject to Congressional review.

11. Congressional Reaction. It is unrealistic to believe that we can present this issue to Congress using only economic efficiency and free trade arguments. The resistance of powerful interests groups could make any proposal to remove the ban a highly-charged political issue. The maritime industry is powerful in national politics. West Coast refiners and consumers might be upset as well. Some Northern Tier pipeline backers could be expected to oppose exports. There are also those who will oppose any export of U.S. oil. Overcoming this opposition is achievable, but some solid economic and security concessions will be necessary from the Japanese.

It is the recommendation of the Working Group that before approaching Congress, some quiet consultations with the Japanese are required to determine what they are willing to offer. Only then will we be able to determine whether a realistic package can be put before the Congress.

#### Approaches to the Japanese

1. Present status. The Japanese are in the process of responding to the latest (December 3-4) U.S. requests for trade concessions, including:

CONFIDENTIAL

CONFIDENTIAL

5

- <sup>3</sup> elimination of beef and citrus import quotas
- relaxation of pre-import procedures
- further tariff reductions
- modification of standards and certification procedures that limit imports
- greater market access for U.S. tobacco products
- other concessions or clarifications affecting a wide variety of U.S. exports, including telecommunications equipment, forest products, petrochemicals, alcoholic beverages, seafood, and chocolates.

Prime Minister Nakasone already has gone far in trying to make some real concessions on both trade and defense in the face of strong domestic opposition in Japan and will likely present some of these concessions during his January visit.

2. Negotiating Strategy. Relaxation of the ban on oil exports could be a useful bargaining chip in the larger context of U.S.-Japanese discussions to promote free trade and enhance energy security. Our strategy towards the Japanese might include the following elements:

- Try to draw the Japanese out first on concessions now under consideration before raising the possibility of Alaskan oil exports.
- Affirm U.S. commitment to free trade, international energy security and cooperative economic relations with our close ally.
- Try to find out seriousness of Japanese interest in Alaskan oil, given the strong possible opposition to exports by some members of Congress and the maritime unions.
- Point out that the following contributions of the Japanese are essential in overcoming Congressional opposition:
  - (a) Investment in U.S. energy development, including Alaskan oil and gas resources and infrastructure, coal, and synfuels.
  - (b) General support for U.S. position on East-West economic issues, including strengthened compliance to East-West credit accord.
  - (c) Further concessions on opening Japanese markets.

CONFIDENTIAL



CONFIDENTIAL

b

(d) Progress on high technology transfer agreements.

(e) Security.

Options and Recommendation

The Working Group considered four options:

1. Seek removal of legislative restrictions on crude oil exports and allow market forces to determine destination of oil as well as means of transport. (This is the most attractive option from an economic efficiency point of view, but would be the most difficult to achieve politically.)

2. Allow export of 200,000 barrels per day of existing production and any new oil production.

3. Allow export of any new oil production to countries which have invested in U.S. energy development. (This would help overcome maritime objections, but is probably not sufficiently attractive to induce further Japanese concessions in the trade and security areas.)

4. Allow export of any amounts of crude oil through TAPS above the present level. (This would require increasing the capacity of the TAPS by adding pump stations. This option would still require amendment of the TAPS legislation, although maritime interests are not threatened. There could be a problem in too rapid depletion of North Slope oil, which is expected to begin to decline in 1987, assuming existing TAPS flow.) DOT would prefer limiting free availability of new oil through TAPS.

It is the recommendation of the majority of the Working Group that the SIG-IEP endorse Option 2 in principle, noting that further work is necessary to elaborate on the approach to the Japanese and the political, technical and legal questions necessary to submit legislation to the Congress.

SECRET

Terms of Reference Energy  
Requirements and Alternatives Stud

The basic guidelines for the Energy Alternatives Study are provided in the "Summary of Conclusions" on East-West economic relations. The Summary stated that:

"In the field of energy, they will initiate a study of their projected energy requirements and dependence upon imports over the next decade and beyond and possible means of meeting these requirements, with particular attention being given to the European energy situation. The study will be conducted under the auspices of the OECD."

Interested countries would ask OECD/IEA to undertake the study, drawing on previous and on-going work, including the World Energy Outlook. The analyses in previous OECD/IEA studies would be updated to reflect changed economic and market conditions. The Energy Alternatives Study would also utilize information being developed in the Natural Gas Security Study. Member country contributions to the study would also be welcomed.

To provide a context for the regional and country analyses, the study would assess global energy supply/demand for oil, natural gas, coal, nuclear and electricity, and identify likely energy supply flows through 2000. This assessment would include energy supply/demand and flows scenarios from an energy security perspective.

Using the cases developed for each of the three OECD regions, with emphasis on Europe, the study will make a detailed examination of:

Requirements (Demand)

- Regional and country energy requirements by:
  - ° Fuel Source
  - ° Consuming Sector

OECD Indigenous Supply

- Energy production possibilities, by energy source, within each region
- Energy imports from other OECD regions.

Import Dependence

- Current and projected regional and country dependence on imports of energy from non-OECD sources, with emphasis on Middle East oil and Soviet energy.

SECRET

- 2 -

Vulnerability on a Regional and Country Basis

- Risk analysis of supply flows and sources
- Physical Systems for Coping with Disruptions:
  - ° Storage capabilities (stocks)
  - ° choke points
  - ° dual-fired capacity
  - ° surge capacity
  - ° allocation systems
- Economic impact of likely disruptions, particularly effects on key sectors.
- Evaluation of means to improve energy security systems:
  - ° supply diversity
  - ° fuel switching
  - ° arrangements for access to shut-in capacity
  - ° improved storage, demand restraint
  - ° pipeline flexibility
  - ° strengthened international cooperation

Alternatives

- For each region and country an analysis of alternatives to dependence on non-OECD imported fuel considering:
  - ° possibilities for enhancing development of indigenous OECD energy sources, including examination of institutional, policy, financial, and technical constraints.
  - ° potential for inter-fuel substitution.
  - ° possibilities for enhancing intra-OECD energy trade.
  - ° externalities (employment, environment, security).

Based on the technical analysis developed by the OECD/IEA, countries would draw policy conclusions and take appropriate actions, including through the relevant multi-lateral organizations.

Follow-up on Energy Requirements Study  
and Natural Gas Security Study

- Mid-January. Approval of terms of reference by informal steering group (Summit Seven, plus EC Commission). (Meeting either on fringe of SLT or later in January)
- Mid-January. U.S. expert (Chuck Patrizia) meets with IEA Secretariat and begins assisting Secretariat with energy study. (Lantzke offered U.S. use of Secretariat position.)
- Mid-January. CIA tasked to undertake "shadow" studies in support of Energy Requirements Study and Natural Gas Security Study. CIA would "sanitize" work it has done on energy security and transmit it to Secretariat for use in energy studies.
- January 13. IEA Executive Director Lantzke in U.S. for meetings with Secretary Hodel, Undersecretary Wallis, and possibly Judge Clark.
- End-January/Early-February. IEA Governing Board (with Paris representation) meets to approve terms of reference. (Lantzke would call meeting "at request of number of IEA members," and would circulate steering group-approved terms of reference to all IEA members.)
- End-January. Data collection and validation for Natural Gas Security Study completed and outside computer consultants engaged.
- Early-February. Secretariat completes first draft of Energy Requirements Study. (Study would not contain policy conclusions or recommendations, only factual analysis.)
- Mid-February. Doordan-type meeting of informal steering group to review first draft and provide comments to Secretariat. (At this point we would bring Norway, the Netherlands, and perhaps Australia into the informal process.)
- End February. Secretariat completes computer analysis for Natural Gas Security Study.

- End-February/early-March. Secretariat redrafts Energy Requirements Study based on steering group discussion.
- Mid-March. Possible meeting of steering group to discuss Secretariat redraft of Energy Requirements Study and to begin process of drawing policy conclusions.
- March. Secretariat analyzes Natural Gas Security Study disruption scenarios.
- March 22-23. IEA SLT meets to discuss status of Natural Gas Security Study.
- March 24. IEA Governing Board meets to discuss Energy Requirements Study. (Governing Board will also decide whether to have Ministerial meeting in May or only Governing Board meeting.)
- April. Secretariat drafts Natural Gas Security Study report.
- Mid-April. Possible meeting of steering group to draw policy conclusion from Energy Requirements Study. (Group would factor in results of Natural Gas Security Study to extent material available.)
- End-April. Secretariat completes Natural Gas Security Study.
- Mid-May. OECD (May 9-10) and IEA Ministerial (or possibly IEA Governing Board) discuss results of Energy Requirements Study and Natural Gas Security Study.
- Mid-May. Sherpas, based on discussions in OECD and IEA and results of steering group deliberations, decide whether and how energy security to be treated at Williamsburg Summit.
- May 27-28. Williamsburg Summit. (Discussion of results of Energy Security Requirements Study and Natural Gas Security Study, if agreement has been reached on policy conclusions.)
- June. NATO Ministerial in Paris. (Discussion of results of Energy Requirements Study and Natural Gas Security Study.)

SECRET

January 7, 1983

Status and Outlook  
Energy Requirements Study

Terms of Reference: The USG has prepared draft terms of reference for the Energy Requirements Study (attached). In it we propose the study proceed from an analysis of likely energy demand and indigenous energy production possibilities to an assessment of projected import dependence and vulnerability to energy supply disruptions. The findings of the IEA Natural Gas Security study would be factored into the vulnerability section. The final analytical portion would be an identification of various energy alternatives that would have the effect of minimizing security risks. Policy conclusions would then be reached by government representatives.

Status and Institutional Arrangements

It was agreed during the Secretary's trip that the Energy Requirements Study would be undertaken in the OECD/IEA framework. To resolve the problem of French attendance at an IEA meeting when they do not belong to that organization, we convened in Paris on December 15 an "informal" group of Summit-country representatives, plus the EC Commission. At that meeting, we distributed for consideration by governments our draft terms of reference for the study. The IEA Secretariat (represented by Executive Director Lantzke) has begun work on the study on the basis of the draft terms of reference and expects to have a first draft ready for review in early February.

We have canvassed Summit capitals for official reaction to our proposed terms of reference. The UK and FRG have accepted the draft without changes. Canada, Italy and France had no specific comments and are expected to approve when their internal deliberations are completed. Japan had some questions (which we are answering) but finds the draft generally acceptable. We expect to meet January 12 in Paris on the margin of the IEA Standing Group on Long-Term Cooperation to obtain Summit countries approval of the terms of reference.

The CIA has been asked to conduct a series of "shadow" on the basis of the terms of reference for the energy requirements study and the IEA natural gas security study. DOE will assist in analyzing the North American energy scene. These "shadow" studies will serve as a check on the IEA's analysis and, as appropriate, permit us to correct or supplement the IEA's work.

SECRET

An interagency working group has been established to backstop USG participation in the energy studies. It includes representatives of all key agencies and State Department offices. The interagency working group will report to Allen Wallis as chairman of the senior-level International Energy Security Group (IESG).

### Outlook

If the Summit country representatives have no serious problems with the terms of reference, we expect to convene another informal Summit 7 plus 2 meeting next week on the margins of the January 12-13 IEA Standing Group on Long-Term Cooperation (SLT) meeting in Paris to obtain agreement on the terms of reference. Final terms of reference could then be provided to the IEA Secretariat.

Ulf Lantzke has informed us the Secretariat will have a first draft of the Energy Requirements Study by early February for circulation to members of the informal group. In mid-February the Secretariat would host a two-day Dourdan-type meeting where the "friends of the Secretariat" would discuss the first draft. At that time, we would bring Norway, the Netherlands, and Australia, into the informal process.

Based on these discussions, the Secretariat would prepare a redraft which could be discussed further by the informal group and/or sent to the IEA Governing Board for consideration. The IEA Governing Board is next scheduled to meet March 24.

The first step in the study is to establish the factual basis to support our contention that, left unchecked, the Soviets can become the marginal supplier of gas to Europe and drive out competitive alternatives. The Energy Requirements Study and the IEA Natural Gas Security Study will derive alternative reference cases based on different assumptions regarding GDP growth to the year 2000, supply and demand, and interfuel substitution. We would expect that at least one reference case will support our contention.

After the factual basis has been laid, further Dourdan-type meetings would be required to draw policy conclusions. We would seek to persuade our European allies that a prudent energy security policy response to the Soviet threat of preemption and resultant European over-dependence on Soviet gas requires a coordinated European effort to promote the development of Norwegian reserves.

SECRET

Our goal, of course, would be to ob in European agreement to the NSDD-66 objectives: "not commit themselves to significant incremental deliveries through already existing (Soviet) pipeline capacity; and participate in the accelerated development of alternative energy resources, principally Norwegian gas reserves." (It should be recalled, however, that the study is an overall, global reassessment of energy security issues. The Europeans will emphasize their vulnerability to oil-supply disruptions.)

Attached is our proposed terms of reference and an anticipated work program.

SECRET